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9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 JEFF HATCH-MILLER, CHAIRMAN
11 WILLIAM A. MUNDELL
12 MIKE GLEASON
13 KRISTIN K. MAYES
14 BARRY WONG

15 IN THE MATTER OF THE APPLICATION OF
16 ARIZONA PUBLIC SERVICE COMPANY FOR
17 A HEARING TO DETERMINE THE FAIR
18 VALUE OF THE UTILITY PROPERTY OF THE
19 COMPANY FOR RATEMAKING PURPOSES,
20 TO FIX A JUST AND REASONABLE RATE OF
21 RETURN THEREON, TO APPROVE RATE
22 SCHEDULES DESIGNED TO DEVELOP SUCH
23 RETURN, AND TO AMEND DECISION NO.
24 67744
25

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Docket No. E-01345A-05-0816

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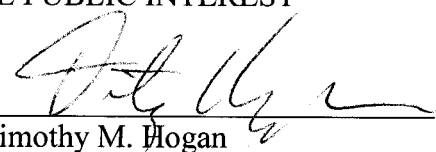
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Southwest Energy Efficiency Project, through its undersigned counsel, hereby provides notice that it has this day filed the written surrebuttal testimony of Jeff Schlegel in connection with the above-captioned matter.

1 DATED this 27th day of September, 2006.

2 ARIZONA CENTER FOR LAW IN
3 THE PUBLIC INTEREST

4 By

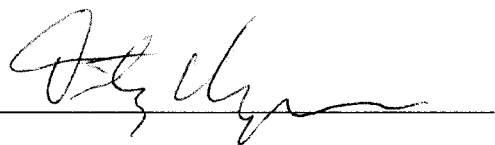

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9 ORIGINAL and 13 COPIES of
10 the foregoing filed this 27th day
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13 Arizona Corporation Commission
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18 
19

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE COMPANY
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SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN, AND TO AMEND
DECISION NO. 67744.

DOCKET NO. E-01345A-03-0816

Surrebuttal Testimony of

Jeff Schlegel
Southwest Energy Efficiency Project (SWEEP)

September 27, 2006

**Surrebuttal Testimony of Jeff Schlegel, SWEEP
Docket No. E-01345A-03-0816**

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Introduction

1
2
3
4 Q. Please state your name and business address.

5
6 A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive,
7 Tucson, Arizona 85704-3224.
8
9

10 Q. For whom and in what capacity are you testifying?
11

12 A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP). I am
13 the Arizona Representative for SWEEP.
14
15

16 Q. Did you file direct testimony in this proceeding?
17

18 A. A. Yes, I filed direct testimony on August 18, 2006.
19
20

21 Q. What is the purpose of your surrebuttal testimony?
22

23 A. In my surrebuttal testimony I respond to APS rebuttal testimony (Teresa Orlick), and
24 to the direct testimony of Staff (Jerry Anderson) and Western Resource Advocates
25 (David Berry), regarding Demand Side Management (DSM), energy efficiency, and
26 climate change issues.
27
28
29
30

APS DSM Expenditures and the \$48M Funding Requirement

Q. Will APS spend \$48M on Commission-approved DSM programs by the end of 2007, as required by Decision 67744?

A. It is too soon to tell definitively. APS *may* be able to meet the requirement set forth in Decision 67744 to spend \$48M by the end of 2007, depending on customer and market response to recently-implemented programs. However, it is possible that due to the newness of the programs, the time lags associated with the implementation of some large projects, and the delays in getting the programs in the field, including Staff review and Commission approval taking longer than expected,¹ APS may not meet the spending requirement.

Q. If APS does not spend \$48M by the end of 2007, what should happen to the unexpended amount?

A. As APS proposed,² any underspending of the \$48M through 2007 should be carried over and spent in subsequent years, in addition to the annual budget for each of the future program years. SWEEP requests an explicit Commission order on this issue in this proceeding, in case APS does not meet its \$48M funding requirement.

**SWEEP's Energy Efficiency Standard (EES) Proposal:
Goals for Energy Savings and Peak Demand Reduction**

Q. After reviewing the rebuttal testimony of APS,³ has SWEEP modified its EES proposal?

A. No. The Commission should set APS DSM energy efficiency program goals in the form of an Energy Efficiency Standard (EES), as SWEEP proposed. The EES should require APS DSM energy efficiency programs to: (1) achieve energy savings equal to at least 5% of total energy resources needed to meet retail load in 2010, and at least 15% in 2020; and (2) reduce summer peak demand by at least 5% of total capacity resources needed to meet retail peak demand in 2010, and at least 15% in 2020. Meeting the EES goals would provide cost-effective benefits to consumers, the electric system, the economy, and the environment.

¹ For example, the planned 2005 spending level was not achieved because most of the programs were not approved until 2006. See Direct Testimony of Jerry Anderson, Staff, p. 6.

² Rebuttal Testimony of Teresa Orlick, APS, p. 3.

³ Rebuttal Testimony of Teresa Orlick, APS, beginning on p. 3.

1 Q. Apparently, APS believes it is premature to set energy (kWh) and peak demand (kW)
2 savings goals.⁴ Why is it important to set savings goals at this time?

3
4 A. It is essential to set goals to implement Commission policy. Goals help determine
5 where we are going. Clear, multi-year goals help utilities, parties, stakeholders, and
6 customers understand how the future electric system will meet future customer load,
7 in a manner consistent with the policies and vision of the Commission. Savings goals
8 for DSM energy efficiency programs, as SWEEP proposed, would clearly direct APS
9 to achieve additional cost-effective energy efficiency savings for customers, thereby
10 reducing total costs for customers and providing other benefits.⁵

11
12 In addition, SWEEP believes it is important to focus primarily on the *effects and*
13 *impacts* of energy and utility policies for setting goals, not primarily on the funding or
14 spending levels.

15
16 Essentially, achieving the goals of the EES would result in a 1,000 MW "efficiency
17 power plant" that would provide \$1.4 billion of net economic benefits to consumers,
18 instead of building conventional power plants that would cost more and expose
19 consumers to higher electricity prices, use precious water, and harm the environment.
20 This is a goal that is important to set and essential to achieve.

21
22
23 Q. Are the goals of the EES reasonable and achievable?

24
25 A. Yes, the proposed EES goals are both reasonable and achievable. The goals are
26 reasonable and achievable considering the low level of energy efficiency activities in
27 Arizona in the past and the large number of remaining opportunities for energy
28 savings, the high rate of load growth in the APS service territory, the significant
29 energy efficiency potential in new construction, and the historical energy efficiency
30 performance in leading states (as documented in my direct testimony).

31
32
33 Q. Are similar savings goals supported by other policy makers in the west?

34
35 A. Yes, similar savings goals are supported by other policy makers in the west. Meeting
36 the EES goals in Arizona would contribute substantially to the achievement of the
37 adopted goal of the Western Governors Association (WGA) to increase energy
38 efficiency 20% by 2020. The adoption of the WGA energy efficiency goal was based

⁴ Rebuttal Testimony of Teresa Orlick, APS, p. 3.

⁵ Per my Direct Testimony, achieving the goals of the Energy Efficiency Standard would save consumers and businesses \$1.4 billion during 2005-2020, eliminate the need for about 1,000 MW of new power plants by 2020 and the associated power line and pipeline infrastructure costs, provide 1,600 GWh of cumulative annual energy savings in 2010 and almost 7,000 GWh in 2020, reduce average annual load growth in retail energy and summer peak demand by 32% (from 3.8% to 2.6%), reduce electricity price spikes and the risks of natural gas price volatility, and reduce air pollution and the carbon emissions that cause global warming.

1 on a technical review by stakeholders and WGA staff, documented in the energy
2 efficiency report for the WGA Clean and Diversified Energy (CDEAC) process.
3

4 Also, in Arizona in August 2006, a diverse group of 35 Arizona stakeholders⁶
5 provided a consensus recommendation to set electric energy savings goals of 5%
6 savings by 2010 and 15% savings by 2020 through demand-side programs, together
7 with the implementation of policies and funding mechanisms needed to achieve those
8 goals. These goals are equivalent to the EES goals proposed by SWEEP.
9

10
11 Q. Why is a spending requirement, as APS proposed,⁷ insufficient?
12

13 A. Cost-effective savings to benefit customers are what matter most. Goals in Arizona
14 should be focused on what matters most. Simply spending money, even cost-
15 effectively, should not be the primary focus of future goals.
16

17
18 Q. Did SWEEP consider other potential goals?
19

20 A. Yes. In particular, SWEEP considered a goal or requirement that APS should capture
21 *all* cost-effective energy and peak demand savings. Capturing all cost-effective
22 energy efficiency would be a more aggressive savings goal than the EES, and would
23 result in the least-cost utility system for customers.
24

25 SWEEP believes that encouraging customers to increase energy efficiency and
26 capture cost-effective savings should be a top priority of utility systems – which
27 would lead one towards the “capture all cost-effective savings” goal above.
28 However, SWEEP proposed the EES goal as a meaningful next step toward capturing
29 significantly *more* of the cost-effective energy efficiency savings, and considering
30 that programs would need time to ramp up activities to higher levels. SWEEP
31 certainly would support a more aggressive energy savings goal than the EES if the
32 Commission desired even higher goals.
33

34
35 Q. Will APS need to design and implement additional DSM energy efficiency programs
36 to achieve the EES goals?
37

38 A. The existing Commission-approved DSM energy efficiency programs should be
39 expanded to achieve the goals of the EES. While some additional DSM energy
40 efficiency programs or program elements *may* be needed to achieve the EES goals,
41 and may also be valuable for providing additional benefits to APS customers, the

⁶ Arizona Climate Change Advisory Group, *Climate Change Action Plan*, August 2006;
www.azclimatechange.us; p. 50.

⁷ Rebuttal Testimony of Teresa Orlick, APS, p. 4.

1 primary mechanism for achieving the EES goals should be the expansion of existing
2 programs already approved by the Commission.

3
4 If APS or other parties believe additional DSM energy efficiency programs may be
5 needed to achieve the EES goals, they are certainly free to propose such additional
6 programs, with input from the APS DSM collaborative, for Commission review and
7 approval. APS and other parties may also choose to propose additional or expanded
8 program elements within approved programs. The proposals could be considered as
9 part of the EES Implementation Plan.

10
11
12 Q. Is the funding level estimated by SWEEP adequate to achieve the goals of the Energy
13 Efficiency Standard?

14
15 A. The SWEEP-proposed funding levels are estimates based on the APS DSM Portfolio
16 Plan and approved programs, and experience in other states.⁸ I acknowledge that the
17 actual funding level necessary in any year may be slightly higher or lower than
18 SWEEP's estimate. However, given the increase in the economies of scale with
19 larger programs, and the nature of fixed vs. variable program costs, plus the
20 significant opportunities in the largely-untapped APS service territory, the actual
21 costs should be reasonably close to SWEEP's estimates. Even if the utility program
22 costs were slightly higher than the SWEEP estimates, the cost-effective energy
23 efficiency resources, by definition, would still be less costly (more cost-effective)
24 than other resource options to meet customer needs, thereby still reducing total costs
25 for customers.

26
27 The bottom line is that the Commission should authorize adequate funding to achieve
28 the goals of the EES, subject to cost-effectiveness. If APS has significant concerns
29 about potential costs, the cost estimates can be examined, and if necessary, revised,
30 during the development of the EES Implementation Plan, with subsequent review by
31 the Commission.

32
33
34 Q. Which DSM funding and cost-recovery mechanisms should be used to provide the
35 additional DSM funding that will be needed to achieve the goals of the EES?

36
37 A. In general, energy efficiency funding and cost recovery could be accomplished
38 through funding in base rates, a DSM adjustment mechanism, a system benefits
39 surcharge, amortizing or capitalizing the DSM investments over time, or a
40 combination of funding mechanisms.

41
42

⁸ SWEEP also proposes a ramp-up to higher levels of spending, building on funding already authorized by
the Commission. See Exhibit JS-1, Direct Testimony.

SWEEP agrees with APS that the two-part approach in place for APS currently⁹ is adequate for the current level of authorized DSM funding. However, the Commission could choose to expand the current two-part approach or build upon it by using an additional funding mechanism for some or all of the additional funding needed to meet the goals of the EES --- including DSM funding and cost-recovery mechanisms that would reduce the rate impacts of the DSM program funding increase in the early years of the EES.

Q. Would you clarify the role and nature of the EES Implementation Plan for the APS service territory?

A. Yes. APS should file an implementation plan to achieve the goals of the EES, covering the 2008-2020 program years, in the spring of 2007, at the same time APS refiles the Non-Residential portion of its DSM Portfolio Plan (per Commission order). The EES Implementation Plan should be developed by APS with input from and review by the APS DSM collaborative, which includes Staff and interested parties.

The EES Implementation Plan should include the historical DSM results for 2005-2006, and should include a forecast for the expansion of the existing Commission-approved DSM energy efficiency programs in 2007. The expansion of approved DSM programs in 2007 should proceed as a result of the order in this proceeding, and should not be postponed for the development, review, and Commission approval of the EES Implementation Plan (which should cover 2008-2020 DSM programs, plus potentially any remaining period in 2007 after Commission review and approval).

APS is correct that it is difficult to develop an Implementation Plan covering 12 years. SWEEP clarifies that the Implementation Plan should include a two-year detailed plan (similar to the APS concept of a biennial plan) together with a more conceptual plan for the remaining period through 2020.

DSM Performance Incentives and Net Lost Revenues

Q. Does SWEEP support the DSM Performance Incentives proposed by Staff and described by APS?

A. Yes. SWEEP supports the proposed performance incentive, including the basis of 10% of net benefits (APS share), and the cap of 10% of spending. This mechanism

⁹ For APS, the Commission previously authorized a two-part DSM funding and cost-recovery mechanism, with one portion of the DSM funding in base rates (\$10 million) and the second portion of the DSM funding (at least \$6 million) recovered using a DSM adjustment mechanism (for the amount in excess of the base rate DSM allowance).

1 was reviewed and supported by the DSM collaborative, and was included in the APS
2 DSM Portfolio Plan.

3
4 SWEEP has one clarification related to the net benefits: the basis of the savings and
5 net benefits should be based on actual installations. However, it is not necessary to
6 wait until the results of future MER studies, associated with the specific installations,
7 are completed and filed with the Commission. Instead, the savings values can and
8 should be based on the results of prior MER and evaluation studies, in a system of
9 regular updates. This is essential to ensure timely review of actual results and timely
10 earnings for APS, thereby supporting the effectiveness of the incentive mechanism.

11
12
13 Q. Does SWEEP support the proforma adjustment to test year data to recover net lost
14 revenues associated with DSM programs?

15
16 A. No. SWEEP supports the position of Staff (Anderson) that net lost revenue recovery
17 not be allowed. SWEEP does not support the recovery of net lost revenues in any
18 event, even if there was not a performance incentive for APS.

19
20
21
22 **Urban Heat Island Effect and DSM Programs**

23
24 Q. What is SWEEP's position on mitigating Urban Heat Island Effects through DSM
25 programs?

26
27 A. SWEEP supports WRA's testimony¹⁰ proposing mitigation of Urban Heat Island
28 Effects in metropolitan areas through APS DSM programs. SWEEP believes that
29 APS should either propose an Urban Heat Island Effect DSM program, or further
30 develop an Urban Heat Island Effect program element within the already-approved
31 programs. This decision should be made with input from the APS DSM
32 collaborative. The DSM program or program element should be developed with
33 input from the APS DSM collaborative and outside experts, and should focus on
34 targeting contiguous geographic areas, as WRA proposes, rather than scattered
35 individual buildings. APS should file the Urban Heat Island Effect program or
36 supporting information on the program element as part of its 13-month filing in
37 spring 2007.

38

¹⁰ Direct Testimony of David Berry, WRA, p. 15.

Climate Change Management Plan and Targets for APS

Q. What should APS be required to do about managing and mitigating the risks of climate change?

A. SWEEP supports WRA's recommendations on climate change risk management.¹¹ Specifically, the Commission should direct APS, with collaborative input, to prepare a climate change management plan, a carbon emission reduction study, and a climate change commitment and action plan, within 12-18 months of the Commission's decision in this case. SWEEP believes some portions of the climate change plans (e.g., the updated inventory, early identification of actions and strategies to reduce climate change risk, and linkages between managing climate change risk and other policies of the Commission and activities of APS, such as DSM and support for renewable energy) should be filed sooner than within 12 months. The plans and studies should be reviewed by the Commission, and approved or modified, for APS implementation.

Q. Does that conclude your surrebuttal testimony?

A. Yes.

¹¹ Direct Testimony of David Berry, WRA, Summary of Recommendations, p. 28.